G 94/989

FET

Foreign Economic Trends and Their Implications for the United States

JUNE 1989

GUINEA

FET 89-57
Frequency: Annual
Supersedes: 88-31

PREPARED BY
AMERICAN EMBASSY CONAKRY

U.S. DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

Available by subscription from the Superintendent of Documents, GPO, Washington, D.C. 20402. Annual subscription, $55.00. Foreign mailing $13.75 additional. Single copies, $1.00, available from Publications Sales Branch, Room 1617, U.S. Department of Commerce, Washington, D.C. 20230.

C 61.11:

READEX FICHE best copy available

GUINEA
KEY ECONOMIC INDICATORS

Area: 95,000 square miles, about the size of Oregon
Population: approximately 6.2 million (1989)
Official exchange rate: US $1.00 = 572 Guinean francs (GF) (May 1989)
Per capita Gross Domestic Product: about $400 (1989)

Year	1986	1987	1988 (est.)
	(Millions of U.S. dollars)		
National Accounts			
Gross Domestic Product	1632	1700	2,480
Agriculture 44 %			
Industry 28 %			
Services 28 %			
Balance of Payments			
Exports (FOB)	538	571	553
Imports (CIF)	511	560	509
Trade Balance	27	11	44
Services and Private Transfers	-195	-200	-230
Official Transfers	28	45	52
Current Account Balance	-139	-144	-134
U.S.-Guinea Trade			
U.S. Exports to Guinea (FAS)	24.3	35.2	34.7
U.S. Imports from Guinea (CIF)	112.7	120.8	139.3
Trade Balance	-88.4	-85.6	-104.6
U.S. Share of Guinea's Imports	6 %		
U.S. Share of Guinea's Exports	23 %		

Principal U.S. Exports: rice, used clothing, chemicals, industrial machinery

Principal U.S. Import: bauxite

Data for Guinea have been compiled from the Government of Guinea, the World Bank, the United Nations, the International Monetary Fund, U.S. Department of Commerce, and Embassy estimates. NOTE: Data from different sources tend to vary widely. Figures herein should be taken only as general indicators.

Summary

In 1988 the economy continued to respond to the Government of Guinea's program of economic and administrative reforms to promote private enterprise and reduce the role of the state. The Gross Domestic Product (GDP) grew by 6 percent in 1987 and by an estimated 5 percent in 1988. This growth stems mostly from the response of agriculture to price incentives, the diversification of the mining sector, the renewal of (largely foreign donor financed) activity in public works and the expansion of mostly small-scale commerce. Inflation, while still high at 27 percent in 1988, is down from 72 percent in 1986 and 34 percent in 1987. There is concern, however, that the rapid expansion of aggregate demand is causing a drain of foreign reserves. Restructuring of Guinea's civil service, privatization of former state enterprises, and improvements in public finance management continued during the year.

In spite of its enormous natural resources, Guinea remains very underdeveloped. Transportation, communications, and industrial infrastructures are improving but do not meet demand. Trained managerial and technical personnel are lacking and labor productivity is low. Encouraged by Guinea's reforms, foreign donors gave over $286 million in 1988.

Current Economic Situation and Trends

Agriculture: Most of Guinea's primary sector output is from subsistence agriculture, on which four out of five Guineans rely for a living. As a result of Guinea's free market policies, agricultural output is expected to grow by an average of 4 percent annually through 1991. Guinea remains far from reaching its full agricultural potential. Much of the country's arable land is not under cultivation. Guinean farmers do not have access to sufficient credit or agricultural skills to ensure food self-sufficiency.

The World Bank estimates that Guinea's annual ocean fisheries potential exceeds 200,000 tons. Many of the species found in Guinean waters, which are among the richest in West Africa, are of high commercial value. Guinea's artisanal fishermen catch only about one-eighth of the estimated potential yield. The Guinean Government is committed to improving surveillance of coastal waters and to enforcement of industrial fishing agreements with foreign partners. The Guinean Government is restructuring the state fishing industry, including starting two joint ventures in 1988 with French companies.

Industry and mining: Mining, particularly of bauxite and diamonds, contributes more than 90 percent of total exports and over 80 percent of government revenues. Due primarily to adverse

trends in the international bauxite and alumina markets, the World Bank predicts a 24 percent cumulative deterioration of Guinea's terms of trade from 1986 through 1993. The importance of Guinea's large-scale diamond operation is growing, and industrial gold mining began in 1988. Significant amounts of gold and diamonds are also mined clandestinely.

The Compagnie des Bauxites de Guinée (CBG) exploits high grade deposits near Boké in northwestern Guinea. CBG is a joint venture between the Guinean Government (49 percent) and Halco Mining, Inc. Halco's shareholders are Alcoa, Alcan, Aluminia, Pechiney, Billiton, Vereinigte Aluminium-Werke, Commonwealth Aluminum and Reynolds. Annual production capacity is over 10 million tons, most of which is sold to the Halco shareholder companies on long-term contracts.

The Guinean Government also owns 49 percent of Friguia, a bauxite mining and aluminum refining company at Fria, jointly owned by Frialco, a consortium which includes Noranda, Pechiney, British Aluminium, Alusuisse, and Vereinigte Aluminium-Werke. Annual capacity production at Friguia is 700,000 tons of alumina most of which is sold to Frialco partners. Friguia will receive loans of $38.5 million from the European Community Sysmin program and $14.3 million from the European Investment Bank for upgrading facilities.

The Kindia bauxite deposits are mined by Office des Bauxites de Kindia (OBK), a Guinean state company managed with Soviet assistance and financed largely with Soviet loans. Annual production capacity at OBK is estimated to be 3 million tons. Almost all of OBK's bauxite is exported to the U.S.S.R.: 56 percent of export proceeds are for Guinea's debt repayment to the U.S.S.R, and 44 percent are for purchase of goods and services from the U.S.S.R. The Government of Guinea is negotiating with the Soviet Government for improvement of those terms, for improvements to OBK, and for further potential Soviet mining investments. Industrial mining of diamonds is carried out near Banankoro by AREDOR, a company equally owned by the Guinean Government and Aredor Holdings, Ltd., an Australian company whose shareholders are Bridge Oil Ltd., Bankers Trust (Australia) Ltd., and Simonius Vischer. Production is 150,000 - 200,000 carats annually, 93 percent of which is gem quality. Diamonds are second to bauxite and derivatives as Guinea's most important source of income. Aredor suspended gold recovery in November 1988 due to lower-than-expected grade at the present site.

Gold and diamonds are mined by artisans on a relatively small scale and are traditionally sold clandestinely. To capture some of the foreign exchange earning from gold sales, the Central Bank of Guinea authorized commercial banks to purchase gold on its behalf from sellers who can remain anonymous. Banks can pay up to 50

percent of the selling price in hard currency. The opening of commercial bank branch offices in towns throughout the interior of Guinea in 1987 has facilitated the government's revenue collection from the proceeds of gold sales. The government reports that over a ton of gold was sold to the Central Bank in 1988.

Aurifere de Guinee (AuG), previously known as the Societe Aurifere de Guinee (SAG), was set up in 1985 to mine gold industrially near Siguiri. The company, a joint venture operated by Union Miniere of Belgium, produces about 4.5 kg per day.

The Guinean Government hopes to develop, jointly with Liberia, the rich iron ore deposits on the Guinean side of the Guinean-Liberian border at Mount Nimba. Drawn-out negotiations, slack international market conditions, lack of financing, and long-term contracts leave the future of the Mifergui-Nimba project uncertain.

Manufacturing in Guinea accounted for less than 2 percent of GDP in 1986. The Guinean Government has sought foreign investment in manufacturing as part of the privatization of many state-owned industries. Shortages of trained managers, unreliable supplies of spare parts, fuel, water, electricity and raw materials, and continued governmental administrative difficulties including corruption have hindered the development of manufacturing in Guinea. Trade, transportation and services account for about one-quarter of Guinea's GDP. Commercial activities dominate and comprise the third most important economic activity in the country.

Money and banking: The official exchange rate for Guinea's currency, the Guinean franc (GF), is set weekly by auction at the Central Bank of Guinea. An unauthorized parallel market for foreign currency exists as well, but the gap between the official and parallel rates has remained moderate. The import and export of Guinean francs is prohibited.

Guinea's commercial banking system, restructured in 1985 and 1986, has been an essential element in promoting trade and potential investment. The opening of bank branch offices in 1987 throughout the country has extended further the benefits of reform to Guineans outside Conakry although popular acceptance of modern banking has been slow.

Some restrictions remain on the export of capital by Guinean nationals. Despite rises at the end of 1988, the Central Bank's control of interest rates below the inflation rate results in an implicit tax on savings and investment, hindering the banking system's efforts to mobilize resources. In 1989 the government is expected to simplify foreign exchange market procedures by ending the requirement for prior Central Bank approval of imports.

Trade and payments: In 1988, Guinea remained extremely dependent on mining exports for government revenue and for foreign exchange earnings. Guinea's principal markets are the countries of the mining venture participants: the United States, Canada, Western European countries, and the U.S.S.R. The Guinean Government is implementing measures to encourage diversification of exports, particularly in fisheries and agriculture.

Guinea's most important imports are foodstuffs, fuel, textiles, clothing, transportation equipment, construction materials, and spare parts. Guinea's main supplier, France, accounts for over 30 percent of total imports. The United States accounts for about 15 percent.

The decline in export earnings from bauxite, together with growth in private sector and public investment imports and increased interest payments on external public debt, is projected by the World Bank to result in a cumulative external current account deficit of $737 million over the 1989-93 period, despite a projected sharp rise in official transfers.

External debt: Guinea's medium- and long-term foreign debt is about $1.5 billion. The bulk of this debt is contracted on concessional terms. Approximately one-quarter of this debt represents loans from the U.S.S.R., one quarter from other donors outside the Paris Club, one third from Paris Club donors, and about one fifth from multilateral financial institutions. Guinea is expected to reschedule its external debt with the Paris Club. Guinea has pursued its refinancing efforts with other creditors as well.

Implications for U.S. Business

The Guinean Government's efforts to diversify exports, promote private investment, and reduce the role of the state in commercial activity are having, a significant impact on the country's growth and development.

Investment: The most dynamic sector for potential investment is public works projects funded by multilateral donor organizations. In addition, agribusiness will benefit from gradual reconstruction of Guinea's transportation infrastructure. Other opportunities may exist in small-scale industry and construction. The 1987 Guinean Investment Code contains incentives for small businesses and development of rural areas. Guinea qualifies for U.S. Oversea's Private Investment Corporation (OPIC) programs. More information is available from OPIC in Washington, D.C.

However, outside the mining enclaves, the absence of reliable transportation, communications and energy infrastructure in

Guinea, and the lack of highly skilled managers are constraints which potential investors must take into account. Guinea is also rebuilding its legal and administrative institutions. The absence of a legal land tenure, ownership, and title system in Guinea complicates investor acquisition of rights to land, although work is expected to be completed on such laws in 1989. Potential investors must realize that the general weakness of the Guinean legal and administrative framework can lead to ad hoc arrangements not based on merit.

Trade: Guinea imports much of its food. Mining companies import large amounts of heavy equipment and supplies for their operations. U.S. exporters are urged to insist on a confirmed, irrevocable letter of credit before shipping products to Guinea.

Ability to conduct business in French is of key importance in Guinea. U.S. businesses will continue to face stiff competition from French and other European suppliers who have historical, linguistic and cultural links in Africa. Businesspeople should be prepared to spend long periods of time in Guinea, getting to know people in order to be effective. Patience, persistence, and, above all, personal contacts are indispensable.